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Technology is everywhere, you just need to look

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When we think of technology companies names such as Microsoft, Facebook (Meta), Google (Alphabet), Apple and Amazon immediately spring to mind. These companies started out as technology companies and are now involved in many if not all aspects of modern life. They collect our data to monitor our habits and then use this information to target products and services at us to increase the chances of us purchasing a good or service.

There are many other companies that could now be deemed technology companies but they do not naturally spring to mind as their history and name are not affiliated with technology and they are not headquartered in Silicon Valley.

The London Stock Exchange is one such example which is an interesting case study.

The London Stock Exchange has its roots back to 1698, when the prices of stocks and commodities were posted in Jonathan's Coffee House on Change Alley in the City of London. Like most exchanges, it remained member-owned for most of its history. When share prices rose sharply in the late 1990s, exchanges around the world rushed to turn themselves into listed companies, often listing their shares on their own markets. London became a listed company in 2001, the same year as Deutsche Börse, owner of the Frankfurt Stock Exchange.

Interestingly, this 'stock exchange' now makes less than 4% of its revenues from actually trading stocks and listing new companies. Its main business is data. The company now generates nearly 70% of its annual revenues from selling access to the primary data it holds on investors' trading habits and current biases on foreign exchange, debt and equity markets to investment companies and banks across the world for them to improve their decision making processes. The 'stock exchange' business is a classic loss leader to entice buyers of its more lucrative product: data.

The importance of this point is that traditional companies can become more modern and relevant in the digitised world if they have forward thinking management teams and a data advantage. It is actually no different to Google and Facebook selling the data on our habits to companies trying to sell us a good or service.

Businesses can take advantage of new technologies to enhance their offering and profitability without being 'new' and shiny. Understanding this is very important in our view as new technologies and opportunities are being created every day by technological advances, however most of these will not make good investments. Very few early stage companies actually make it to sustained profitability. Without profits, why invest in a company?

At Tacit our view is that established businesses which can use these new technologies effectively to enhance their current products, and offer complimentary services are just as well placed to grow their revenues as they have time to grow these new business lines without needing to go cap in hand to their backers for more cash when they run out of money. In a zero interest rate world, this investment was easy for them to find, we fear it will be much tougher and prohibitively expensive moving forward.

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